



Stanford eCorner

The Advantages of Profit

Heidi Roizen, *Draper Fisher Jurvetson*

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Video URL: <http://ecorner.stanford.edu/videos/68/The-Advantages-of-Profit>

Heidi Roizen explains the advantages of using existing profits to fund new ideas, as the resulting startup is not beholden to anyone else. She also states the importance of attracting venture capital, but only at the appropriate time in a company's development.



Transcript

At the end of the day, the best assurance that you're going to create shareholder value is to create profit. If you can create profit, shareholder value will usually follow. Now there are a lot of people that made a lot of money in the past market by picking a trend early and then betting on something and to a certain the greater fool theory. That there was always someone who was willing to pay more money for that company. But at the end of the day profit is nature's way of telling you, you actually built something of value. And you can get real people to pay real money for it and pay you money than it cost you to make it. Profit has another great advantage. You don't need anyone to invest in your company, right? You can continue to survive and we can live to fight another quarter if you're actually making money. If you're not making profit, you will have to be beholden to someone who is going to come in and purchase your equity. And that's going to be a real challenge.

Now, does that mean you should never have venture capitalists? Well, that would be really dumb if I stood up here and said that. No, you should have venture capital but you should have it at the right time. You should use it as judiciously as possible.